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"Deafness" As A Defective Explanation Why You Cannot Hear!

(*Continued from October issue*)

Some of our readers may have thought when they read the October issue that we were defining Occam's Razor somewhat differently from what is usually done. Yes and No.

Occam's Razor (in Latin) reads as follows: *Entia non sunt multiplicanda praeter necessitatem.* This can be translated several ways: (1) entities [ideas, in order to explain something] should not be multiplied beyond necessity; (2) do not make an explanation more complicated than necessary; or (3) do not shift to abstract terms when trying to explain something specific.

In order to explain what Occam meant when he argued against multiplying *entias,* or entities, we give a simple illustration. I am conversing with a man, but suddenly he makes a strange remark. He does not talk sensibly in response to what I said. His wife says: "John does not hear well, because he is a little deaf." Thereafter, I talk more slowly and loudly, and his answers become sensible again.

But did the wife *explain why* John did not hear? She explained his not hearing by his *deafness.* Now deafness is a *general* term, an *entia,* or entity, in Occam's language. She used that general term in order to explain the specific situation; however, it does not *explain.* It was against this type of explanation or reasoning that Occam argued. He objected to the common practice of medieval theologians who used an abstract term (such as *deafness* in our illustration) in order to express an abstract idea which was then used as a presumed explanation of something specific.

This husband, John, was not deaf *because* he suffered from deafness. If John cannot hear, it is *because* there is something wrong with John's hearing anatomy and physiology. Imagine modern doctors taking care of hard-of-hearing patients by abstractly discussing the idea of *deafness,* rather than applying the laws of anatomy, and physiology, hygiene and pathology of the ear, and working on those specific realities!

Here is how we understand Occam: he said in order to solve a specific problem, *do not construct a general idea* (that is, do not multiply "entities") *in order to explain that specific problem.*

Now, what *deafness* is as an imagined explanation why people cannot hear, the modern term of *righteousness* is as an imagined explanation for the cure of the ills of modern society. The modern term, righteousness, as a mere term no more explains how to eliminate poverty in a capitalist society (poverty being an undesirable ailment of any society) than the use of the term deafness explains the bad hearing of a man.

Righteousness — that which the Christian Labor Association and some of the members of the Calvinistic Action Committee, and others talk about — is specifically *included* in the Ten Commandments or it is something *added* to the Ten Commandments. If righteousness consists of exactly what is included in the Ten Commandments, then *righteousness* means something definite and then for us Occam's Razor does not apply. But if it is something added to the Ten Commandments, then for us Occam's Razor does apply; because then *entias* have been multiplied. The Ten Commandments are not abstract; they are specific. Any shift from the Commandments to an abstract term as *righteousness* is most unfortunate for the Christian church.

PROGRESSIVE CALVINISM bases judgments regarding *righteousness* solely on Scripture. There are many people who consider that their ideas are more noble than that, because they base their judgments regarding righteousness on something more than is spelled out in the Commandments. They *add* something. On what they add we think a clean stroke of Occam's Razor is needed. What we quoted last month from Von Mises's *Human Action* shows how disastrously wrong the prevailing religious ideas are about "economic righteousness."

Christ, in the Sermon on the Mount, called attention to grievous misinterpretations of the Decalogue, but He was emphatic that He had not come to add anything new to the Ten Commandments. He added no *entities* which could not be found in the Ten Commandments.* He certainly added nothing that remotely re-

*See PROGRESSIVE CALVINISM, April 1955, pages 85-112; May 1955, pages 113-144.

sembles what the Social Gospel means by justice or righteousness or what some people in the Christian Reformed church mean by those terms.

Occam's Razor is sometimes called the *Law of Parsimony,* that is, "economy of assumption in reasoning." That emphasizes economy or simplicity. Lack of economy in reasoning is not a fallacy as such. Occam did not want economy in reasoning for economy's sake; he was attacking a genuine fallacy, the making of a *certain kind of assumption,* an assumption which was unnecessary and meaningless, namely, that universals (general terms) are real explanations of specific problems.

The correct description of much modern so-called Calvinism is that it is nothing more than a revival of the fallacy that corrupted Platonism in its day and the scholasticism of the Middle Ages — the fallacy which Occam shattered. To repeat the fallacy today is to manifest a form of intellectual degeneration.

We submit that *unrighteousness* (or *injustice*)* must consist in something specific, namely, one or more of the following:

1. Lack of liberty, that is no freedom to pursue your own values, or no freedom for others to pursue their values; plus

2. Injuring the neighbor, by

   (a) Parental neglect (the Fifth Commandment)
   (b) Violence (the Sixth Commandment)
   (c) Adultery (the Seventh Commandment)
   (d) Theft (the Eighth Commandment)
   (e) Fraud (the Ninth Commandment)
   (f) Covetousness (the Tenth Commandment)

Having defined *unrighteousness* (or *injustice*) it is easy to define righteousness as the opposite, to wit: it is (1) liberty and allowing liberty (2) without injuring the neighbor, as outlined in (a) to (f).

*We are here using the terms *unrighteousness* and *injustice* interchangeably.

Righteousness (or justice) is a fragment of neighborly love, namely that fragment which has just been mentioned. If to this fragment you add (1) forbearance, (2) charity and (3) the gospel message in its widest import, then you have the total of *brotherly love.*

The *state* should be founded on righteousness (or justice) only.

The actions which constitute *society* should be founded on righteousness, *plus* forbearance and charity.

The *church* should be founded on all those *plus* the gospel.

How well do the various systems for organizing society, namely, capitalism, socialism-communism and interventionism, meet the requirements of being founded on righteousness?

Socialism-communism denies the essential ingredients of righteousness; it denies liberty and openly applies coercion. In practice it has always turned out to be coercive, subversive to marriage, thievish, fraudulent and fueled by envy.

Interventionism "halts between two opinions"; it professes liberty, but it assumes some men are so wise, so good, and so disinterested that they can "regulate" economic life, that is, freely (and wisely!) intervene against legitimate liberty. In proportion as it does that, it is not founded on righteousness.

Capitalism in the purest forms that it has ever manifested itself does base itself upon liberty and the Sixth, Eighth and Ninth Commandments, but modern "capitalism" harbors a grievous systematic sin. This sin is shaking confidence in capitalism.

The trouble with the advocates of capitalism is that they, although they are generally right that capitalism is a far better system of organizing society than any other, still do not understand or admit that capitalism *as presently operating* systematically violates the Law of God, or if they understand that, they have no intention of giving up that sin. That would be inconvenient and would disturb vested interests. Rich and poor in the United States are determined to keep the "sin" to which we refer. fn

Purpose Of This Issue— Exposing The Sin Of What Is Called "Capitalism"

PROGRESSIVE CALVINISM favors *capitalism* as a system of economic organization which helps *everybody* the most, the poor and weak as much as (in fact relatively more so than) the rich and the strong.

But we do not approve of capitalism in the sense that most people think of capitalism. We favor capitalism only in a special sense, namely, in the sense that the Law of God *should apply to everything in life.*

Capitalism, as we think of it in America and the Western World, has a sin which stains its name and blights its prosperity, namely, systematic fraud and theft.

The ironic thing is that this sin is not really a capitalistic sin, but an interventionist sin. What people think is capitalism today is really a combination of capitalism and interventionism. The interventionist part of this hyphenated capitalism-interventionism is the sinful part. But unfortunately the capitalist part is being blamed for it.

Many people who consider themselves pure capitalists and do not wish to be known as interventionists, nevertheless heartily approve this sin. fn

Progressive Calvinism's Definition Of Capitalism

On page 303 of the October 1957 issue of PROGRESSIVE CALVINISM, four systems for the economic organization of society were listed: (1) capitalism; (2) socialism and/or communism; (3) interventionism; and (4) righteousness.

PROGRESSIVE CALVINISM in the past three years has provided readers with ample evidence that we are opposed on both ethical and economic grounds to socialism-communism and also to interventionism.

The contents of the October issue will also have made clear that we completely reject an economic society founded on "righteousness," when "righteousness" is as meaningless and iniquitous as was shown in the quotation we took from Ludwig Von Mises's *Human Action,* under the title "Righteousness As The Ultimate Standard Of The Individual's Actions." In proportion as a reader studies carefully what we quoted from Mises, he realizes that the talk about "righteousness" is crass self-deception or hypocrisy. The people who talk about "just prices," "just wages," and "a righteous society" are merely prattling words. There is nothing in what Mises wrote in the material we quoted with which we disagree. We despise as much or more than he does the kind of a "righteous society" which is intended by the Social Gospel and which he has unmasked. In fact, the "righteous society" that the social gospellers talk about is as much a fiction and as ridiculous as a large part of the philosophy of the ancient and medieval worlds.

Granting that we reject socialism-communism, interventionism and also "righteousness" as a system for organizing society, an inference that PROGRESSIVE CALVINISM favors "capitalism" as it presently operates is incorrect. Our acceptance of capitalism depends upon the exact definition given to capitalism.

Capitalism is customarily defined as an economic system based upon (1) a *free market* and (2) a system based upon the *private ownership of capital.* That definition of capitalism is satisfactory to us as far as it goes, but it does not go far enough.

To the two characteristics just mentioned we add a third necessary characteristic of true capitalism, namely, that it include a coercive system which forbids and prohibits violence, theft and fraud. (These three evils are forbidden in the Ten Commandments of God. Violence is forbidden in the Sixth Commandment; theft in the Eighth Commandment; and fraud in the Ninth Commandment.) Our definition of capitalism then is:

(1) a *free market,* plus

(2) *private ownership of capital,* plus

(3) the *ethical laws* in the Commandments promulgated through Moses.

Just as the Social Gospel claims for its system the name of "righteousness" so we claim for capitalism the name righteousness, *if capitalism is defined as we have just defined it.*

Economists in their definitions of capitalism have seldom specified the third requirement which we have listed. Omitting that requirement does not imply that they exclude it; *they assume it.* How could there be real freedom if violence were to be permitted; and how could there be private ownership of capital if theft and fraud were to be permitted?

Economists having their eye fixed on the economic aspects have, we believe, neglected the moral aspects of the question. This is a significant omission which has some undesirable consequences. It has resulted in the impression of some people that capitalism is not founded in the last analysis on morality but upon some technical system of economic organization. That interpretation is erroneous. Capitalism if it is to be a "righteous" system for the organization of society, must also be in harmony with what is declared to be morality. Whether that system of morality has an authoritarian base or a rationalistic base, is not of consequence at this point.

Because PROGRESSIVE CALVINISM is a cross-breed publication, midway between the secular sciences of human action on the one hand and the ethics of the Hebrew-Christian religion on the other hand, we have a special interest in how "morality" from a religious viewpoint can be reconciled with the "principles" of economics. fn

Modern Calvinism's Ideas In The Field Of Economic Theory; "Mene, Mene, Tekel, Upharsin"!

On the wall of Belshazzar's palace on the night that Babylon was captured by the Medes and Persians, the finger of a hand wrote on the wall, "Mene, Mene, Tekel, Upharsin" (Daniel 5:25), which nobody could interpret except the prophet Daniel. He declared that the words meant: "God hath numbered thy Kingdom,

and brought it to an end; thou art weighed in the balances, and art found wanting; thy kingdom is divided, and given to the Medes and Persians."

Today the handwriting on the wall in regard to Calvinism is equally clear, "Mene, Mene, Tekel, Upharsin." Socialism-Communism, historically the enemy of religion, is at the gates. If socialism-communism overwhelms the capitalist world there will be very little left for some time of the Christian religion. Not that it will fail ultimately to survive; it will; the ethical principles underlying the Christian religion and true capitalism are such that men must *eventually* return to those principles whether they wish or not. The long-time view therefore, in the struggle between communism and capitalism, should be looked at optimistically, but the short-time view may be just the contrary.

The situation in regard to modern Calvinism cannot be described in optimistic terms. It is apparent that Calvinism does not know how to refute the basic arguments of socialism-communism; readers will remember that we are offering money to anyone who can provide us with an argument written by a Calvinist which *logically* refutes socialism-communism. We are not referring to a "refutation" of socialism-communism by quoting some text. Nor are we referring to a pragmatic argument based on consequences, namely, that socialism-communism results in poverty and tyranny. To our knowledge there is no Calvinist philosopher or social scientist who has addressed himself to refuting socialism-communism and come up with the answer. If anyone has, we would certainly appreciate learning to know about it. So much for Calvinism on socialism-communism.

The understanding of Calvinist philosophers and social scientists in regard to capitalism is no better. Capitalism has many faults according to present-day Calvinist philosophers and social scientists, but these men never refer to that defect of capitalism which is its outstanding and stunning moral deficiency. That is not a deficiency which is incidental to modern capitalism. It is a deficiency which is woven into the warp and woof of modern capitalism. It is this moral evil in capitalism which may temporarily destroy capitalism. That moral deficiency has a consequence which sharp socialists-communists constantly attack without knowing or

being willing to use the true corrective. The common man, who does not fully understand the economic situation, no longer has full confidence in capitalism, and feels half persuaded to try something else, namely, socialism-communism. (However, he sees that the consequences of socialism-communism are much less satisfactory.)

Therefore, we write the words, "Mene, Mene, Tekel, Upharsin," in regard to the economic theory of Calvinism; it does not know what is really wrong either with socialism-communism or with capitalism. fn

Theft Masquerading Under The Guise Of Efficiency

Suppose I am an employe of a retailer. I have access to the cash register. After working several years I discover that the owner never takes out all the cash; he always leaves a good working ballance in the register. It is a greater amount than needed, because the owner knows there should be a reserve available against the most unusual demands. In fact, I conclude that there is $1,000 extra there all the time.

Then I "reason" with myself and say: "there is no benefit in letting that money remain idle; I will use it myself." And so I take the $1,000 and invest it. I persuade myself that I have not stolen $1,000. I am merely using what is not being used. I say to myself: "If the owner needs it, I will restore the money. But do not worry; it will not be needed. My employer is only inefficient in the use of money; I will be efficient in the use of money."

If, unbelievably, the money is needed in the future, then I will sell the investment which I made with the money, and put the new funds back into the cash register.

How appraise my act? The correct appraisal is that I am a defalcator and a thief.

The monetary structure of capitalism is founded on this same principle and is justified by the same "logic."

Scripture says: "Your sins will find you out." fn

Origin Of The Immorality Of So-called Capitalism

In former times, or at least as far back as the time of Abraham, the experience of men with *money* was such that the only kind of money which was safe was a metalic money. The quantity of money should not be increaseable arbitrarily at will, and money should not be bulky. For these and other reasons, men chose the metals, silver and gold, as the most satisfactory for use as money. At the very end they settled on gold only.

The problem arose how to subdivide gold into convenient small units. That resulted in coinage. The coinage in turn became a problem, because of cheating by putting base metals in the coins, and because of making the coins slightly under-weight or of chipping or clipping them.

Furthermore, when a business transaction is very large it is not practical to complete it by the use of coins. It is better to accomplish the transaction by means of shipping bulk gold in bars, which is known as bullion. In international trade bullion is the best type of money with which to settle balances.

Gold, whether in the form of bullion or in the form of coins, can easily be stolen. Businessmen therefore had the problem of having vaults for their money. Vaults are expensive and not everyone wishes to spend the money for one. There was one type of business man who would certainly have a vault, namely, goldsmiths. They would need a vault for their own gold because they would constantly be using gold for making jewelry. Goldsmiths would also have the equipment to convert coins into bulk metal (bullion).

The natural consequence of all this was that the goldsmiths became the custodians not only of their own gold but also for the gold of other people. But no one, of course, would give gold for safe keeping to a goldsmith without getting a *receipt*. These *receipts* were given the name of *gold certificates*.

It was not long before merchants who left their gold for safekeeping with goldsmiths hit upon the idea of taking their receipts in smaller amounts. Assume that a merchant deposited 100 ounces

of gold with a goldsmith. He would then ask for 100 certificates for one ounce each instead of a single certificate for 100 ounces. The reason why he would do that would be that in a business transaction he might buy something for two ounces of gold. All he would then do would be to give two of his gold certificates (each for one ounce of gold) to the man to whom he owed the money. In other words, the receipts for gold became substitutes for the gold itself. The principle of passing out these certificates in business transactions was obviously a significant simplification. All that a merchant had to do was to have his paper receipts (certificates) in his pocket. They did not weigh much and as long as the goldsmith who had the actual custody of the gold was reliable, the receipt or certificate was considered as good as the gold itself.

It was natural that the goldsmiths in the great commercial centers of the world would become the first "bankers" of the business world. At any rate, that is the way the system developed in England.

Over the years the goldsmiths discovered that they were practically never confronted with the problem of "cashing" all their receipts or certificates at any one time. If merchant Jones drew out some gold, merchant Smith would probably put in some. This must have intrigued some of the sharp minds among the goldsmith brethren. Some of them hit upon the bright idea that they could put out more receipts than they had gold. If an individual goldsmith had 10,000 ounces of gold "on deposit" from 200 businessmen, then the natural thing would be for him to have 10,000 certificates outstanding. Suppose, however, that this goldsmith wished to buy, in order to make some jewelry, another 2,000 ounces of gold, but assume further that he had no means of paying for this gold himself. If his "credit" was good he might decide that he could "pay" for the extra 2,000 ounces of gold simply by giving the seller 2,000 of his certificates. In other words, he was giving 2,000 pieces of mere paper for 2,000 honest ounces of gold. He would calculate that he would not be in trouble in regard to the transaction because the 200 merchants who had 10,000 ounces of gold on deposit with him *would never ask him for their 10,000 ounces at one time.*

And so the practice developed of having more certificates outstanding than there was gold on hand.

How should this transaction be viewed? There is only one way to look at it. The transaction was a fraud, a theft, and consequently a violation of the Eighth Commandment which says: Thou shalt not steal.

There is one characteristic of this theft which should be noted. It was not exactly a theft at the expense of another *individual* person, but a theft at the expense of all the creditors. Let us assume that the goldsmith was unfortunate in regard to the jewelry he made with the 2,000 ounces of gold he bought by means of his "certificates"; assume he lost the whole investment. Then assume that on one day all his creditors (those to whom he has given his receipts or certificates) suddenly become suspicious; they appear at one time; and they demand their gold. There is a "run" on this goldsmith, who has been operating as a "banker." What happens? There are only 10,000 ounces of gold and there are 12,000 certificates outstanding. Clearly, each creditor, if treated equally, can get only 10/12 of the gold which he had deposited (or sold) to the goldsmith. He has been defrauded.

When the day came that gold receipts (certificates) were substituted for the original metal itself, then the opportunity was present to increase the quantity of certificates by just signing additional pieces of paper. The opportunity was present to engage in enormous transfer of wealth, that is, to engage in colossal theft. fn

What Causes Depressions? Calamities? No; Sins? Yes

An American citizen, German born, still a young bachelor, explained a situation as follows: in *good* German families a man continues in school until he has a doctor's degree by which time he will be 25 or 26 years old. Then he spends four or five years becoming established in his profession or in business and saves enough money so that he can marry at 30.

But many men are not inclined to wait so long, and they marry before finishing their education, before establishing themselves in their life work, and before they have saved money for setting up housekeeping and for emergencies. A young man may even marry when he has practically no more than employment. He often does

not have enough money to set up housekeeping unless he goes into debt. We wish to consider the consequences of this under certain conditions.

Let us assume that a young man named Brown has an income of $6,000 a year. Let us assume further that when he marries he also buys a house for $15,000 with $1,000 down payment; an automobile for $2,500 with $1,000 down payment; and household equipment for $3,000 with $1,000 down payment. He will have used $3,000 of his income to buy these big items and the rest was bought with borrowed money in the amount of $17,500. The young man's purchasing power that year was the $6,000 which he earned plus the $17,500 which he borrowed. Here was a man who was producing $6,000 worth of goods or services, but who was exercising purchasing power in the amount of $23,500. By his borrowing as much as he did, he helped make the building industry, the automobile industry and the household appliance businesses boom.

If everybody else simultaneously purchased much merchandise "on time" or "on credit," the "prosperity" would be terrific. There would be a shortage of labor and materials and prices would go up. We would have what everybody calls a *boom*. But could this boom last?

This boom can continue unabated only in case credit is expanded in the second year as in the first. If credit is expanded some but less than the first year, then although the boom will continue, it will be at a reduced rate.

Someone who incurs a debt should pay it sooner or later. This young man in one year's time has incurred a debt of $17,500. Let us assume that he must make payments in the second year in the amount of $3,000. He is earning $6,000. He will be able to make new expenditures of only $3,000. The rest of what he earns will have to go towards paying off the debt. This "big buyer" in the first year will be a very small buyer in the second year.

In other words, the opportunity that any man has to go into debt can have a great influence towards creating a boom and towards creating an eventual depression. The boom results from his buying by means of credit of a certain kind; the depression results from his obligation to pay his debts under those conditions.

Booms (of the kind known to modern society) are the result of increases in debts of a certain character. Depressions are the result of reducing those debts. The two foregoing statements look at the situation *in total.* They do not consider individuals, nor territories, nor different types of borrowers. It is the total increases or decreases of debts of a certain kind that count.

The foregoing is the basic explanation of what is known as the business cycle — alternating booms and depressions — prevalent in the western world. fn

Bankers As Brokers Of Money Versus Bankers As Creators Of Money

Someone who does not accept the foregoing explanation of the cause of the business cycle, namely, the expansion and contraction of credit of a certain kind, may declare that those who extended credit to our young man possessed the credit to give him. They may say that the automobile dealer was rich, or at least the bankers loaned him the money. Similarly it may be argued that the dealers in household furnishings directly or indirectly had the money to loan, and that the contractor who built the house was rich or could arrange to be a creditor.

Clearly, if the man who extends credit gives purchasing power to the debtor *but cuts down his own purchases by the amount that he loans,* then the creditor cuts down his consumption as much as the debtor expands his. Then there can be no boom because what the young man Brown spent in a big splurge amounting to $23,500 in one year was offset by a reduction in the expenditure of his creditors by $17,500 plus his own earnings of $6,000. In that case society as a whole is "even." There is no boom after all.

When the young man makes payments on his debts his creditors can then spend the money or reloan it to someone else and so there will be no reduction in purchasing power in the future years. Consequently there will not be any depression either. The "buying power" will be constant.

In the foregoing set of circumstances the creditors (whether they be trade creditors or bank creditors makes no difference) are looked upon as *brokers.* Whatever extra one man spends is offset

by a reduction in what other men spend. If Jones and Smith save money and put it in the bank and then if the bank loans the money to Brown the banker is the broker who brings the real lenders and borrowers together. The real lenders are Jones and Smith; the real borrower is Brown.

But the situation is altogether different if the banker can loan money which he does not have, but which the law permits him to *create*. Suppose that Jones and Smith each deposited $5,000 in the bank in the year that young Brown was spending $23,500. The banker could be a broker of the $10,000. That would leave $7,500 which would have to come from somewhere else. Where? Suppose that we all as citizens of a small town (in which Smith, Jones, Brown, the banker and the rest of us live) had passed a law that the banker could manufacture some extra money so that when young Brown needed the additional $7,500 the banker would *create* the $7,500 in either of two ways; (1) by printing money, or (2) by crediting Brown's checking account with $7,500.

In this case the banker is not a broker of money but a creator of money. The law of the United States gives a banker the right to *create* money. It is variations in the quantity of this *created* money which is the systematic cause of booms and depressions.

In order to relate the foregoing to typical practice and to show how it is related to what the goldsmiths originally did we add the following. Suppose Jones and Smith have regular checking accounts in this bank, and are continually depositing and drawing out money, as did the merchants who kept their gold with the goldsmith and obtained certificates. We shall assume that Jones and Smith always leave (combined) a minimum of $7,500 of their money in the bank. The bank — as did the goldsmith — will be quick to realize that it can loan that $7,500 to Brown, although the money left in the bank by Jones and Smith was their *reserve* and they had no intention that somebody else would be using it. But Jones and Smith do not know that the bank had loaned out *their* reserve to Brown. It is probable that Brown cannot pay back the $7,500 *on demand*. If Jones and Smith suddenly need part or all of the $7,500 and if the bank cannot immediately get the money back from Brown, then the bank is considered nonliquid and temporarily (if not permanently) insolvent. (People

do not have confidence in a bank which cannot pay out *on demand.*) But for a bank to operate as we have outlined is authorized by law in the United States. Booms and depressions are the result of the expansion of credit, according to the practice taken over from the goldsmiths and incorporated in our banking law.

The law governing banking in the United States is a law which implies that it is as moral for a banker to put out more money than he takes in, in the same way as the goldsmith, in the illustration we gave earlier, put out more certificates than he had gold on deposit. fn

Kinds Of "Money"

In the days of the goldsmiths in London, whom we mentioned earlier, their original money was a metal—gold.* We shall call such metal *commodity money.*

When the goldsmiths put out receipts for gold which they had on deposit, they put out a different kind of "money," namely, *money certificates.*

When the goldsmith in our previous illustration put out 2,000 certificates which had no metal backing he was putting out (in our terminology) "fake money." Because putting out fake money can be "successful" as long as those who are given the fake money are willing to accept it, a name has been given to this fake money which we shall also use, namely, *fiduciary media.*

If a law is passed which says that this fake money, this fiduciary media, must be accepted by everyone whether he wants it or not, then this fake money is *legal tender* in the territories over which the particular government has control. Whenever something is declared to be legal tender it can be used in the payment of debts. The creditor must then accept the fiduciary media at its face value even though it does not genuinely have commodity money behind it.

In the *final* settlements in international trade neither money certificates nor fiduciary media are accepted; only commodity money. In other words commodity money (gold) has a universal

*Really, silver and gold; but we are confining this discussion to gold.

value independent of the stamp of approval of a particular government. If in international trade buyers and sellers would be willing to accept substitutes for commodity money at the value assigned by a particular government, then it would only be a short time before all governments would put a fictitiously high valuation on their money.

Booms and depressions do not result from variations in the quantity of *commodity money* or of honest *money certificates.* Booms and depressions result only from the expansion and contraction of the fake money — the fiduciary media, whose fiduciary character depends on a government declaring that it has a certain exchange value relative to commodity money, and making it legal tender.

The terms we are using and the fundamental distinctions which we are here making in regard to the differences between commodity money, money certificates and fiduciary media are based upon the terms and distinctions made by Professor Ludwig Von Mises in his famous book, *The Theory of Money and Credit.*

When the men who developed western capitalism made the decision to incorporate fiduciary media into their monetary structure they made a fatal mistake. They made a decision which authorized fraud and theft.

They did not, it should be noted, make the decision that an unlimited amount of fiduciary media could be put out. If they had passed a law to that effect, the fact that it was a mistake would have become apparent promptly. It would have been a big sin and the big sin would have caught up with society quickly.

Instead the decision was to authorize only a limited amount of fiduciary media, namely, a certain ratio to the amount of commodity money on hand. This in effect was saying that a big sin should be avoided but a modest sin would carry no penalties.

It was inevitable that from time to time there would be unfortunate experiences with the fiduciary media of the goldsmiths, namely, the receipts they issued in greater quantity than the gold they had on hand. A sudden "run" on a goldsmith would result in his bankruptcy.

The natural thing to expect would be that the government would make it a crime to put out more receipts (certificates) than there was gold on hand. The strange thing is that governments have done just the opposite. They have organized a banking structure which made fiduciary media an essential part of the monetary structure. Instead of limiting money to two classes — metal and certificates — they included in legal tender, money, certificates *and* fiduciary media. fn

The Mathematics Of What Causes Depressions

To show how purchasing power changes depending on the source of borrowed money the following calculations are made:

	ON THE BASIS OF		
	Money Certificates	Partly Money Certificates And Partly Fiduciary Media	All Fiduciary Media
1. Brown Earns:	$ 6,000	$ 6,000	$ 6,000
2. He borrows:	17,500	17,500	17,500
	$23,500	$23,500	$23,500
Bank loans to Brown directly or indirectly through:			
3. Contractor	$14,000	$14,000	$14,000
4. Household Goods Dealers	2,000	2,000	2,000
5. Automobile Dealer	1,500	1,500	1,500
Total Loans	$17,500	$17,500	$17,500
6. Reduction in consumption by depositors of bank whose money is loaned	$17,500	$10,000	——
7. Fiduciary media created by bank	——	7,500	17,500
8. Net New Purchasing Power (1 plus 7)	$ 6,000	$13,500	$23,500

The figures show the surge in purchasing power caused by the issuing of fiduciary media. That surge creates the boom.

But as certainly as the surge in purchasing power resulting from the issuing of fiduciary media creates the boom, equally certainly the repayment of the loans and the reduction of the fiduciary media creates a depression. Consider what happens when Brown repays the loan. Suppose he repays it in ten equal annual instalments. What will he be able to buy annually in the next ten years?

	ON THE BASIS OF		
	Money Certificates	Partly Money Certificates And Partly Fiduciary Media	All Fiduciary Media
1. Brown's Income Yearly	$ 6,000	$ 6,000	$ 6,000
2. Annual repayments necessary (for 10 years)	1,750	1,750	1,750
3. Brown's expendable income	4,250	4,250	4,250
4. Annual Increase in Expendable Income Of The Lenders	+1,750	+1,000	——
5. Reduction Of Fiduciary Media	——	750	1,750
6. Net Expenditures (3 plus 4)	$ 6,000	$ 5,250	$ 4,250

Whenever loans are financed by new fiduciary media, the repayment must inescapably bring on a depression. That is how God brings home to men the punishment for a sin.

The depression would not have occurred if there had not been the boom. The way to get rid of depressions is to insist on removing the cause of the boom.

Escaping Moses?

There is no more chance of escaping the penalty of fraud in the foregoing illustration than there is a chance of escaping from mathematics. It literally *cannot* be done. The reduction in purchasing power is as inescapable as the expansion in purchasing power.

Therefore, Moses's statement, your sins will find you out, is true whether you sin a little or whether you sin much. The universal idea seems to be that you can "get away" with small sins. You retreat before your sins catch up with you. If that really works, Moses was mistaken.

Another Solution Worse Than A Depression

There are many people, including orthodox Calvinists, who are genuine optimists. They believe that they can "beat the game" and really engage in sin without penalty.

They say: steadily increase the fiduciary media. Never pay off debts created by fiduciary media. Always increase them, but not too fast, of course.

This is the route of inflation which the country is presently following. The basic idea underlying this is that Moses was *wholly* wrong about sins catching up with a sinner. This idea is that the longer and more steadily you sin the surer you will not be caught. fn

The Contribution Of Great Economists To Folly

Gold is not perfect as money. But it is the closest thing to perfect money that we presently know.

Money should be something the quantity of which cannot be manipulated. Although the quantity of gold cannot be manipulated, there have been gold discoveries which have had a big effect on prices — making prices go up and in that way unexpectedly affecting economic affairs; for example, the discovery of the Western Hemisphere by Columbus making available gold from Peru and elsewhere; the California gold rush; the discovery of gold in the Klondike in Alaska; and gold in South Africa.

But the quantity of gold is, everything considered, very stable. The quantity depends on how profitable it is to mine for gold. The cost of mining being controlled by the current costs, the result is that only so much gold is being mined as is profitable. On this basis, the production of gold decreases when gold is not needed in order to keep prices stable, and increases when gold is needed in order to keep prices stable.

The production of gold is usually no more profitable than another business and so it is a humdrum, close margin business. (Presently it is generally unprofitable.)

Some of the world's greatest economists have been conspicuously wrong in some of their ideas regarding money. This is true of both Adam Smith and David Ricardo.

Smith, for example, expressed the opinion that gold was an expensive form of money; a paper currency would cost society less than gold. Then, so he argued, it should be possible to transfer labor from costly gold mining — the gold being used for money — to "productive" purposes; he argued that low-cost paper money would be a genuine social saving.

Smith was unfriendly to Calvinism, but he might well have accepted a basic idea of Calvinism, namely, that man is totally depraved. On the basis of that premise, Smith would have concluded that paper money would eventually certainly be increased practically *without limit* — if there was no high cost restraining it, as the high cost of mining gold restrains the production of too much gold.

Ricardo had similar ideas. He considered gold coins to be an extravagance. It would be better to keep the gold in bullion form and issue *only* money certificates. He did not realize that the money certificates would be restricted to agree with the amount of gold on hand *only if the public could demand the gold and use the gold in place of gold certificates whenever they wished.* If coins were not available, the public could not possibly *know* whether the gold was there or not. Free redemption of gold by surrender of certificates is a vital part of a sound money system.

The logic of Smith and Ricardo was correct in the abstract. They failed to take into account human weakness and depravity. Hence, they were really grossly wrong. The ideas of Smith and

Ricardo indirectly lulled men into complacency about expansion of fiduciary media as part of the monetary structure. They made men unduly trusting in regard to paper money.

Those who have argued from the viewpoint of "social efficiency" have been right that there is less cost in creating a nongold monetary media. But the trifling saving, accomplished (1) by not having a 100% reserve of gold behind paper money, and (2) by using only paper money rather than gold coins as well, does not compare with the staggering penalty of creating monetary dishonesty — by issuing fiduciary media — that is, by issuing paper money not "covered" by gold coins or gold bullion. It is a collossal error to have a monetary structure based on anything except gold and on certificates interchangeable for gold — on demand. fn

Why Governments Have Adopted And Approved The Fraud Of The Goldsmiths

There is an interesting historical question: how did it come about that the dishonesty of goldsmiths (in issuing more certificates than they had gold on hand) became an integral part of the monetary system of England, the rest of Europe, and the Western Hemisphere?

When goldsmiths who took too great risks became bankrupt, the victims were not the common man, but men of large affairs, especially the big merchants. The rich are, of course, no more pleased than poor people are about the loss of money, and so they were undoubtedly vigorous in their complaints. It was demanded that something be done. What was needed obviously was (1) a prohibition against issuing fiduciary media and (2) announcement of penalties for violation of the prohibition — penalties equal to the penalties for theft and fraud.

Strangely, that is not the solution that was adopted.

Instead of prohibiting the issuance of fiduciary media, the government came up with another idea — *regulate* the business of issuing fiduciary media. No "solution" more characteristic of interventionism could have been found. The essence of interventionism is regulation.

Interventionism is the great hope of many modern Calvinists, but they should look at the banking industry as an example of what interventionism means. Banking is the *most-regulated* industry in the United States. It is also the industry already regulated for the longest period of time. Because of that, banking ought to be the ideal industry in the United States. But it is the contrary; although completely regulated, it is the most disturbing industry in the country — the cause of booms and depressions. This is not the fault of individual bankers. It is the fault of incorporating into the law of the land — with the approval of practically all citizens including nearly every orthodox Calvinist — the privilege of issuing fiduciary media, which are really fraud certificates.

The effect of government action has been to aggravate the situation in regard to fiduciary media. By setting out to regulate the issuance of fiduciary media, the government in effect popularized them. A bank could say: "We are regulated; we are operating according to the law of the land; our fiduciary media has government approval." And so today we have "bank notes"* popular with the common man as well as the big merchants.

There were two reasons why the government encouraged dishonesty rather than providing a penalty for dishonesty. Those two reasons were: (1) the government realized that it could help finance itself by authorizing banks to issue fiduciary media; and (2) the government believed it could decrease the interest rate by legislating in such a manner that the quantity of money would be increased. These motivations were dishonest and hypocritical, or, as a minimum, were folly. Certainly, by regulating — and thereby approving fiduciary media—the government was contributing to a direct violation of the Ten Commandments; it was approving theft and fraud.

Let us consider the government's objective of artificially lowering the interest rate.

Increasing the quantity of money does not lower the interest rate. Even today nearly everybody believes that the interest rate is determined by the quantity of money. A specific increase in the quantity of money will have the very *short-term* effect of lowering interest rates; and vice versa. But for the *long term* the quantity

*Also deposit credits.

of money has no effect on the interest rate. The famous philosopher David Hume (1711-1776) who in his day was a remarkably good economist, wrote as follows (*The Essays Of David Hume,* Grant Richards, London, 1903, page 303):

> Lowness of interest is generally ascribed to plenty of money. But money, however plentiful, has no other effect, *if fixed,* than to raise the price of labour. Silver is more common than gold, and therefore you receive a greater quantity of it for the same commodities. But do you pay less interest for it?

What Hume said was, in more modern language, this simple idea: increasing the quantity of money does not lower the interest rate but only raises prices (that is, causes inflation).

Legislation to lower interest rates usually includes forbidding more than a certain rate of interest. These are the so-called usury laws. Nearly every state has such laws. John Calvin made the mistake of being in favor of such usury laws. He did not understand what determines the interest rate. The principle underlying usury laws is somewhat absurd. You are forbidden to loan money at more than, say 8%. Johnson desperately needs a loan. At 9% you would loan him the money, but the law prohibits that rate. And so Johnson gets no loan at all. Certainly, it is common sense to say that a 9% loan is better than no loan at all. But that is not the theory of the usury laws.

In Japan the prime interest rate for big business is more than 10%. Usury? No. Capital is scarce in Japan. The high rate is perfectly sound economically — *and morally.*

The objective of endeavoring to lower interest rates artificially (by issuing fiduciary media, by usury laws, or otherwise) is itself basically unsound. It is that objective which is behind half the economic folly of the world. Men pass laws to lower interest rates, increase the quantity of money, and in social gospel pulpits thunder against the "money interests." It is folly and claptrap. The economic law governing money rates is eventually as inescapable and as unchangeable as the law of gravity.

The second reason why governments popularized fiduciary media rather than prohibiting it is because they wanted to benefit themselves from the issuance of fiduciary media. What better way for a government which wished to spend more than it was prepared to tax its citizens than to raise money through a subservient banking system which was authorized to issue fiduciary media!

There is a constant struggle by the financial departments of nations to obtain control of the monetary structure. This struggle is going on in the United States at the present time.

Truman, when he was president, insisted that the Federal Reserve Bank "support" the government bond market by keeping money rates arbitrarily low. This was nothing less than attempting to help the government finance itself at the expense of the monetary structure.

When the Republicans came into office in 1952 a competent banker was appointed Assistant Secretary of the Treasury. Realizing the basic unsoundness of the financial and monetary policy which existed he persuaded the new administration to let money rates find their natural level. The money market tightened so fast when no longer artificially managed that the banks felt the pinch almost immediately, the stock market declined, and business sentiment was disturbed. Not having warned the public of the sure consequences of a transition toward making the monetary structure honest and independent of government policy, public sentiment was completely unprepared to accept the temporary and necessary consequences. Within a few months a new program of having a monetary authority really independent and nonsubservient to the government was abandoned. fn

How God Punishes Theft

God does not reach out of heaven with a long arm and grab a Wall Street banker by the nape of his neck, crack his head against a wall, and tell him to stop putting out "fiduciary media" — crooked money.

Putting out fiduciary media is not the banker's fault, but is the fault of the banking laws of the United States. No banker could compete against other bankers if they were authorized to put out fiduciary media and he was not. If *money* is to be sound in the United States, the laws governing money must be changed so that they conform to the Ten Commandments.

If somebody is to be punished justly for this dishonest "fiduciary media" type of money, then it is everybody who votes.

It may be doubted that God operates directly, that is, illogically, in temporary affairs. A *rational* world requires that consequences be logical. There is no long arm emerging below the clouds to punish us.

A robber robs a bank. He is enriched. But robbing banks does not "pay" eventually. A robber's prosperity is only a flash prosperity. Similarly, theft through putting out fiduciary media does not give permanent prosperity. There is a flash prosperity — known as a *boom*. But, as the prosperity of the bank robber does not last, so the prosperity created by fiduciary media does not last. *Depressions are the logical and well-deserved punishments of thefts perpetrated by means of putting out fiduciary media.*

It is an insult to God to pray piously to Him for employment and prosperity and at the same time blatantly be violating His commandment forbidding theft. Samuel, alleging he was speaking for God, told King Saul:

> Hath Jehovah as great delight in burnt-offerings and sacrifices, as in obeying the voice of Jehovah? Behold, to obey is better than sacrifice, and to hearken than the fat of rams (I Samuel 15:22).

Modern Calvinism would be doing better if it heeded that simple statement — obeyed more and prayed differently. On the great *practical* issues of the day orthodox Calvinism is intellectually bankrupt. Most orthodox Calvinists follow the Social Gospel in *practical* matters; this is especially true of intellectuals. fn

(*to be continued*)

Ludwig Von Mises's New Book: Theory And History*

This book has been sent to us for review. However, what we write now is not adequate as a review, but is only a notice of the appearance of the book.

We have read the book with profound interest and recommend it to all our readers who have or can have an understanding of problems of epistemology.

In economics PROGRESSIVE CALVINISM is unqualifiedly of the Mises school of thought. We consider him the greatest living economist and one of the greatest economists of all time. We do not measure a man by his popularity, but by his originality, by the quality of his work, and by his fortitude.

Mises's greatest book is his *Human Action*. Anyone who has read it will realize that he is more than an economist. He places economics as a specific science in its proper place in relation to the other sciences of human action, and to the natural sciences. Part of Mises's greatness is the comprehensiveness of his thinking and his orientation of economics relative to all other sciences.

Great thinkers finally devote intense thought to problems of epistemology. We think of epistemology as the science that confronts itself about the limits of the human mind. A profound physicist will eventually give thought to how far knowledge of physics can go and he will either acknowledge a limit or not. Further, he will consider the validity of his methodology; how far will his method permit him to plumb the depths in his own particular field. The lower the quality of a man's mind, the more dogmatic and arrogant he will be, and the less he will concern himself with epistemology.

Mises's new book, *Theory And History,* is a book in the field of epistemology. It is a study of what can be known and what cannot be known; it is also a study of the basic difference between the natural sciences and the sciences of human action; it is further a study of defective methodologies and erroneous ideas in the field

*_Theory And History_ by Ludwig Von Mises, Yale University Press, New Haven, Connecticut, 1957; 384 pages, $6.00.

of the sciences of human action. Mises considers in his book the "limits of what can be known," and he makes his own original and penetrating analysis, starting with his special field, economics.

* * *

Men are arrogant or humble; and men are intellectually rash or intellectually cautious. In regard to these classifications Mises must be described as rigorously logical and extraordinarily "humble."

The consequence of his "humility" is that Mises heavily attacks the grandiose intellectual allegations of innumerable people. Those allegations and pretenses are shown to go beyond what was known or could be known by such arrogant thinkers. The effect of this critique by Mises is that he cuts conclusions of others down to size or completely shatters them.

If the Christian religion instructs men to be humble and if that instruction is applicable to their intellectual attitudes, then Mises is wholly in that tradition. However, the intellectual pretensions of churchmen and religionists generally come under his critique as unmercifully as others.

So much for the "humility" of Mises's epistemology. The "logic" of Mises is equally forthright. He is a *rationalist* and the achievements of the minds of men are what interest him more than anything else. Human *reason* is, within its eventual boundaries, the ultimate criterion for Mises.

This seems to bring Mises into a head-on collision with the *authoritarian* foundation of the Christian religion. For Mises a statement is not necessarily right *because* somebody declared he was a spokesman for God; for Mises something is necessarily right if it is logically and pragmatically right. He is, therefore, basically an unqualified *utilitarian* in the best sense and he belongs to the great British utilitarian school of thought.

Consider the Second Table of the Ten Commandments. Those Commandments may be considered to be ultimate *because* God gave them. But they may be esteemed ultimate *because* perspicuous reasoning and judgment will also show that they are ultimate whether God formulated them in words or not. In that sense *revelation* and *reason* can agree. For Mises reason only counts. He is

basically skeptical of anything which is alleged on the ground of some *authority.* We ourselves are not distressed by Mises's emphasis on *reason.* We believe that it would be impossible for genuine reason and genuine revelation to disagree. We see no conflict. Where Mises has one leg to stand upon, namely reason, we have two, namely reason and revelation. We are temperamentally unsympathetic to interpretations of Scripture which are contrary to reason. As our readers know, we object to expansive interpretations of Scripture. In the field of ethics we call such expansiveness *sanctimony,* one of the very worst diseases of the Social Gospel.* When the ethics of Scripture are interpreted without stretching or ballooning what Scripture says, then we believe they are wholly reasonable presentations.

* * *

Mises refuses to judge the *aims* and *ends* of acting men; let every man choose his own purposes, and determine his own values. Mises concerns himself only with *means.* His emphasis is on the question: *Are the means appropriate for the ends aimed at?* If not, they stand condemned. Much of the book is devoted to showing how shockingly wrong people are whose means are so wrongly chosen that they give a result just the opposite of what was intended. Mises's system of thought is, therefore, *internally consistent.* Having modestly limited the range of his criticisms to *means* only, he can make *reason* supreme. His "truth" can therefore properly be autonomous, and need not be based on authoritarianism.

* * *

In regard to "aims" Mises accepts as an axiomatic truth that man is motivated by his own values. He formulates this fundamental axiom as follows:

> In the strict sense of the term, acting man aims only at one ultimate end, at the attainment of a state of affairs that suits him better than the alternatives. (Introduction, p. 12.)

*See PROGRESSIVE CALVINISM, January 1957, pages 15-32.

A popular but less-satisfactory formulation of this principle is the idea that man seeks pleasure and avoids pain. This is customarily condemned as hedonism or eudaemonism. As Mises has formulated this basic premise in the foregoing quotation we see nothing wrong with it. Furthermore, it is not "sinful selfishness" for a man to have the aim of "attaining a state of affairs that suits him better than the alternatives." Elsewhere Mises formulates the idea as follows:

> Since action invariably aims to substitute a state of affairs which the actor considers as more satisfactory for a state which he considers less satisfactory, action always aims at profit and never at loss.

* * *

Another basic idea in the book is that one method is suitable for investigation in the natural sciences, a method concerning itself with *causality;* but that method Mises declares (rightfully, we are sure) to be inappropriate in the field of human action. In the field of human action we are dealing with *purposes,* not causes. These purposes are in philosophic language called "final causes." They are a cause only because the *purpose* was of a character to induce a man to try to *cause* that purpose to be accomplished.

This distinction between *causality* and *final causes,* the reason for the basic difference between the *natural* sciences and the sciences of *human action* results in a convincing rejection by Mises of the pretension of obtaining valid conclusions regarding the sciences of human action by means of the methods of the natural sciences.

* * *

Mises's thinking is anti-socialist and in favor of freedom. His book is full of strictures regarding the fallacies and absurdities of socialism.

* * *

Mises is not sympathetic to the Christian religion. But he is not more hostile to the ethics of the Social Gospel than we are. We consider the ideas underlying the *ethics* of the Social Gospel to be unqualifiedly evil. We gravely regret that the *ethics* of the Social Gospel are almost universally also the *ethics* of orthodox Christians. That calamitous fact may eventually result in some Dark Ages for Christianity unless Christians change their thinking.

Mises's ideas can be and should be more useful for the Christian religion than the ideas of any other living thinker, whether Christian or agnostic. If the Christian religion will universally abandon its non-Christian Social Gospel ethics it can probably be saved from doom.

* * *

Mises is a modern Occam. He shatters the general concepts (universals) with which the present-day economic world deludes itself, in the same manner that Occam shattered the general concepts (universals) of the Middle Ages. See his pages 250 and following.

* * *

It is possible — probable — that this book will appear difficult, or extreme, or even unreasonable to honest and good readers. They may not know why. The reason will be that the structure of Mises's thinking is *wholly* different from prevailing popular thinking. There was a day when Mises seemed to us maybe illogical and certainly extreme. But we have finally understood the whole framework of his thought and now what he writes appears to us to be moderate and, in economics, unassailable. It is hard to have an open mind; it is hard even when one has an open mind to appraise correctly what is really wholly different and original.

If one wishes to read a book in the difficult and fundamental field of epistemology, then this book should be read. It is a very enlightening book written by a great thinker — a genius. fn

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